

# GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

*A Pension Trust Fund of the State of Illinois*

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## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2003

GENERAL ASSEMBLY  
RETIREMENT SYSTEM,  
STATE OF ILLINOIS

2101 South Veterans Parkway  
P. O. Box 19255  
Springfield, Illinois 62794-9255

Prepared by the Accounting Division

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# INTRODUCTORY SECTION

## Letter of Transmittal



- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255 217-785-7444

December 15, 2003

The Board of Trustees and Members  
General Assembly Retirement System,  
State of Illinois  
Springfield, IL 62794

Dear Board of Trustees and Members:

The comprehensive annual financial report (CAFR) of the General Assembly Retirement System, State of Illinois (System) as of and for the fiscal year ended June 30, 2003 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System.

To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the report of the independent auditors.

### The report consists of six sections:

**1. The Introductory Section** contains this letter of transmittal, the identification of the administrative organization and the Certificate of Achievement for Excellence in Financial Reporting;

**2. The Financial Section** contains management's discussion and analysis, the report of the Independent Auditors, the financial statements of the System and certain required and other supplementary financial information;

**3. The Investment Section** contains a report on investment activity, investment policies, investment results and various investment schedules;

**4. The Actuarial Section** contains the Actuary's Certification Letter and the results of the annual actuarial valuation;

**5. The Statistical Section** contains significant statistical data; and

**6. The Plan Summary and Legislative Section** contains the System's plan provisions and current legislative changes.

Generally accepted accounting principles require that the financial reporting entity include:

1. the primary government;
2. organizations for which the primary government is financially accountable; and
3. other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

Although the General Assembly Retirement System, Judges' Retirement System and State Employees' Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the General Assembly Retirement System do not include plan net asset information nor the changes in plan net assets of the State Employees' Retirement System or Judges' Retirement System.

## PLAN HISTORY & SERVICES PROVIDED

The General Assembly Retirement System was established as a public employee retirement system (PERS) by state statute on July 1, 1947. As of June 30, 1948, the end of the System's first fiscal year of operations, there were a total of 190 participants and the plan net assets valued at cost amounted to approximately \$39,000. The fair value of plan net assets at the end of fiscal year 2003 amounted to \$49.7 million, and there were 295 total participants.

The mission of the System as prescribed by state statute is to "provide retirement annuities, survivors' annuities, and other benefits for members of the General Assembly, certain elected officials, and their beneficiaries."

## INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes, using the "prudent person rule".

This rule states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position.

The ISBI maintains a wide diversification of investments within this fund which is intended to reduce overall risk and increase returns. As further detailed in the Investment Section, this was a most challenging year in virtually all segments of the financial markets.

## FUNDING

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments. The greater the level of funding, the larger the ratio of accumulated assets to the actuarial accrued liability and the greater the level of investment potential.

A new funding plan for the System, enacted in 1994, requires that state contributions be paid to the System so that by the end of fiscal year 2045, the ratio of accumulated assets to the actuarial accrued liability will be 90%. For fiscal years 2011 through 2045, the required state contributions are to be computed as a level percentage of participant payroll.

For those fiscal years up through 2010, the required state contributions are to be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the state is contributing at the required level contribution rate to achieve the financing objective by the end of fiscal year 2045.

In addition, the funding legislation also provided for the establishment of a continuing appropriation of the required state contributions to the System. This has, in effect, removed the appropriation of these funds from the annual budgetary process.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 2003, amounted to \$196.5 million. The actuarial value of assets (at fair value) amounted to \$49.7 million as of the same date. A detailed discussion of funding is provided in the Actuarial Section of this report.

## ACCOUNTING SYSTEM & INTERNAL CONTROL

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

The accrual basis of accounting is used to record the financial transactions and activities of the System. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recognized when the corresponding liabilities are incurred, regardless of when payment is made.

The System also uses the State of Illinois, Statewide Accounting Management System (SAMS) as a basis for the preparation of the financial statements.

## Letter of Transmittal

### MAJOR EVENTS/INITIATIVES

On April 7, 2003 Governor Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This legislation authorized the State to issue \$10 billion in general obligation bonds for the purpose of making required contributions to the five state-funded retirement systems, including the General Assembly Retirement System. On July 1, 2003, the net bond proceeds were allocated and distributed to each of the five state-funded retirement systems based on each system's relative percentage of the total unfunded liability at June 30, 2002. The General Assembly Retirement System received an allocation of bond proceeds totaling \$27,073,983 and deposited all of the proceeds into the Illinois State Board of Investment Commingled Fund on July 2, 2003.

During fiscal year 2003, the System evaluated and expanded the services available to members through the System's Internet site. In addition, the State Retirement System's EDP Division commenced work on a needs assessment review to identify future computer hardware and information system needs.

During fiscal year 2004, the System will continue to evaluate and expand the services available to members through the System's Internet site, as well as continue to offer pre-retirement, post-retirement, and one-on-one counseling sessions at various locations throughout the state. The State Retirement System's EDP Division will continue to study and evaluate future computer hardware and information system needs.

## Letter of Transmittal

### EXECUTIVE SECRETARY RETIRES



After 28 years of service with the State Retirement Systems, General Assembly Retirement System Executive Secretary Michael L. Mory retired effective December 31, 2002. Mr. Mory assumed control of the State Employees' Retirement System effective November, 1974 and, in May, 1989, was named to the position of Executive Secretary for the Judges' and General Assembly Retirement Systems. As a strong advocate for the System's membership, Mr. Mory always strived to ensure the System's long-term financial integrity as well as improve the service provided to the membership.

The System's Board of Trustees and staff would like to express their appreciation to Mr. Mory for his leadership and devotion during his many years of service and wish him the very best in a well-deserved retirement.

In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

### PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the System. Actuarial services are provided by Goldstein & Associates, Chicago, Illinois. The System's investment function is managed by the Illinois State Board of Investment.

The annual financial audit of the System was conducted by the accounting firm of McGladrey & Pullen, LLP, under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a one year compliance audit was also performed by the auditors.

The purpose of the compliance audit was to determine whether the System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law.

### CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the General Assembly Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2002.

The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily

readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The General Assembly Retirement System has received a Certificate of Achievement for the past fourteen consecutive years (fiscal years ended June 30, 1989 through June 30, 2002).

We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### ACKNOWLEDGMENTS AND COMMENTS

In November, 2002, Associate Executive Secretary Robert V. Knox was named by the Board of Trustees to succeed Mr. Mory effective January 1, 2003.

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and for determining responsible stewardship for the assets contributed by the members in the State of Illinois.

On behalf of the Board of Trustees, we would like to express our appreciation to the staff and professional consultants who worked so effectively to ensure the successful operation of the System.

Respectfully submitted,

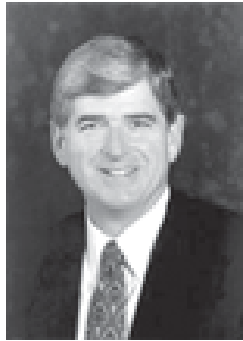


Robert V. Knox  
Executive Secretary



David M. Richter, CPA  
Accounting Division

## Administration



REPRESENTATIVE  
**Lee A. Daniels**  
Chairman



SENATOR  
**James F. Clayborne, Jr.**



SENATOR  
**Peter J. Roskam**



REPRESENTATIVE  
**Kurt M. Granberg**



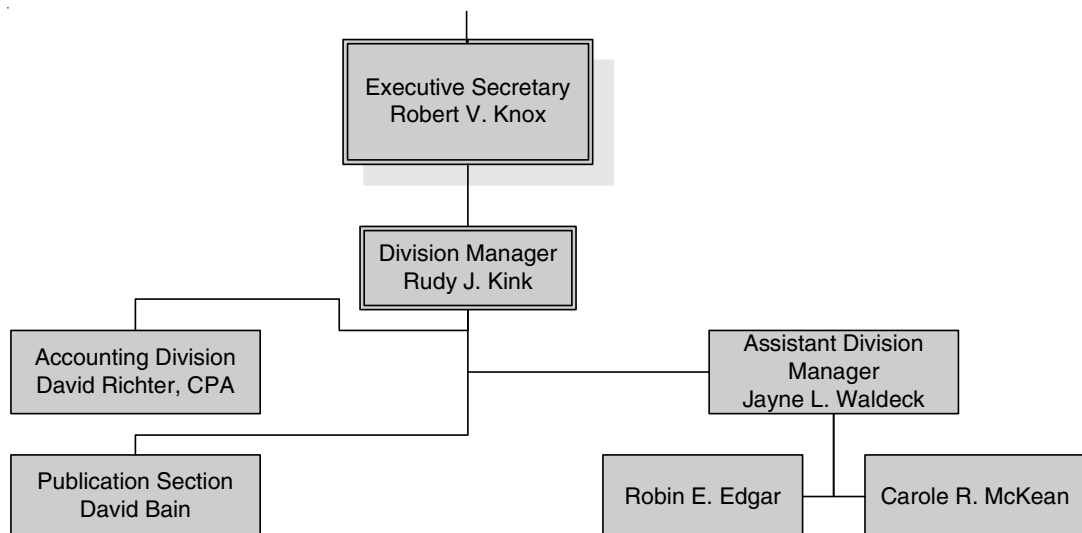
REPRESENTATIVE  
**Barbara Flynn-Currie**



REPRESENTATIVE  
**Philip W. Collins**  
Retired Annuitant Member

\* One GARS Board  
seat is currently vacant

## BOARD OF TRUSTEES



### Advisors, Auditors, and Administrators

Consulting Actuary	Goldstein & Associates Chicago, Illinois
External Auditor	McGladrey & Pullen, LLP Chicago, Illinois
Investments	Illinois State Board of Investment Chicago, Illinois



## Certificate of Achievement

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

General Assembly  
Retirement System, State  
of Illinois

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



# FINANCIAL SECTION

*Independent Auditor’s Report*

## *Independent Auditor's Report*

## Management's Discussion & Analysis

***This financial report is designed to provide a general overview of the General Assembly Retirement System's finances for all those with an interest in the System's finances.***

This section presents management's discussion and analysis of the financial position and performance of the General Assembly Retirement System (System) for the year ended June 30, 2003. It is presented as a narrative overview and analysis. Readers are encouraged to consider the information presented here in conjunction with the Letter of Transmittal included in the Introductory Section, of the Comprehensive Annual Financial Report.

The System is a defined benefit, single-employer public employee retirement system. It provides services to 182 active participants and 383 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's financial reporting which is comprised of the following components:

**(1) Basic Financial Statements.** For the fiscal year ended June 30, 2003, basic financial statements are presented for the System. This information presents the net assets held in trust for pension benefits for the System as of June 30, 2003. This financial information also summarizes the changes in net assets held in trust for pension benefits for the year then ended.

**(2) Notes to the Financial Statements.** The notes to the Financial Statements provide additional information that is essential to achieve a full understanding of the data provided in the basic financial statements.

**(3) Required Supplementary Information.** The required supplementary information consists of two schedules and related notes concerning actuarial information, funded status and required contributions for the System.

**(4) Other Supplementary Schedules.** Other schedules include more detailed information pertaining to the System, including schedules of revenues by source, cash receipts and disbursements, and payments to consultants.

### FINANCIAL HIGHLIGHTS

- The System's net assets decreased by \$4.4 million, or 8.1% during fiscal year 2003. The decrease was primarily due to a downturn in equity markets and increasing benefit payments.
- The System was actuarially funded at 25.3% as of June 30, 2003 a decrease from 29.3% as of June 30, 2002.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was a positive .3% for fiscal year 2003 compared to a negative 6.9% for fiscal year 2002.

### ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were approximately \$2.0 million and \$1.6 million for the years ended June 30, 2003 and 2002, respectively. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to approximately \$5.4 million in 2003 from approximately \$4.7

### PLAN NET ASSETS

*The Statements of Plan Net Assets are presented for the System as of June 30, 2003 and 2002. These financial statements reflect the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. A summary of the System's Plan Net Assets is presented below.*

#### Condensed Statements of Plan Net Assets (in thousands)

	2003	2002	Increase/(Decrease) Dollar Change	Percent Change
Cash and cash equivalents	\$ 1,614.8	\$ 1,297.6	\$ 317.2	24.4%
Receivables	791.7	701.6	90.1	12.8
Investments, at fair value	47,386.2	52,154.4	(4,768.2)	(9.1)
Capital assets, net	1.5	2.1	(.6)	(28.6)
Total assets	49,794.2	54,155.7	(4,361.5)	(8.1)
Liabilities	117.9	105.1	12.8	12.2
Total plan net assets	<u>\$49,676.3</u>	<u>\$54,050.6</u>	<u>\$(4,374.3)</u>	<u>(8.1)%</u>

million in 2002. This increase was based on contributions required by the State's funding plan.

## DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2003 and 2002, the System paid out approximately \$11.2 million and \$10.0 million, respectively, in benefits and refunds, an increase of approximately 12.0% from 2002. Those higher payments were mainly due to an increase in the number of retirees and higher employee salaries on which the payments are based. The administrative costs of the System represented approximately 3% of total deductions in both 2003 and 2002.

## FUNDED RATIO

The funded ratio of the plan measures the ratio of net assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2003 decreased to 25.3% from 29.3% at June 30, 2002. The amount by which actuarially determined liabilities exceeded net assets was \$146.8 million at June 30, 2003 compared to \$130.5 million at June 30, 2002. Several reasons for the decrease were weak financial markets in 2002 and 2003, and an increase in actuarial liabilities.

## INVESTMENTS

Investments of the System are combined in a commingled investment pool with the Judges' Retirement System and the State Employees' Retirement System. Each system owns an equity position in the pool and receives proportionate investment income from the pool in accordance with respective ownership percentage. Investment gains or losses are reported in the Statement of Changes in Plan Net Assets of each retirement system.

## Management's Discussion & Analysis

Net investment income less expenses of the ISBI Commingled Fund totaled approximately \$12.7 million during fiscal year 2003, versus net investment losses of \$577.9 million during fiscal year 2002, resulting in returns of a positive .3% and a negative 6.9%, respectively. The actual rate of return earned by the System will vary from the return earned on the total ISBI Commingled Fund as the result of overall market conditions at the time of additional investments in or withdrawals from the ISBI Commingled Fund. For the three and five year period ended June 30, 2003, the ISBI Commingled Fund earned a compounded rate of return of a negative 4.6% and a positive 1.8%, respectively.

*Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Assembly Retirement System, Accounting Division, 2101 S. Veterans Parkway, P. O. Box 19255, Springfield, Illinois 62794*

## CHANGES IN PLAN NET ASSETS

*The Statements of Changes in Plan Net Assets are presented for the years ended June 30, 2003 and 2002. These financial statements reflect the changes in the resources available to pay benefits to members, including retirees and beneficiaries.*

### Condensed Statements of Changes in Plan Net Assets (in thousands)

	2003	2002	Increase/(Decrease) Dollar Change	Percent Change
<b>Additions</b>				
Participant contributions	\$ 1,954.1	\$ 1,552.3	\$ 401.8	25.9%
Employer contributions	5,433.8	4,721.5	712.3	15.1
Net investment (loss)	(233.1)	(3,914.8)	3,681.7	94.0
Total additions	<u>7,154.8</u>	<u>2,359.0</u>	<u>4,795.8</u>	<u>203.3</u>
<b>Deductions</b>				
Benefits	11,131.5	9,953.2	1,178.3	11.8
Refunds	106.7	68.2	38.5	56.5
Administrative expenses	290.9	284.8	6.1	2.1
Total deductions	<u>11,529.1</u>	<u>10,306.2</u>	<u>1,222.9</u>	<u>11.9</u>
<b>Net (decrease) in plan net assets</b>	<u><u>\$(4,374.3)</u></u>	<u><u>\$ (7,947.2)</u></u>	<u><u>\$3,572.9</u></u>	<u><u>45.0%</u></u>

## Financial Statements

# GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

## Statements of Plan Net Assets

June 30, 2003 and 2002

	2003	2002
<b>Assets</b>		
Cash	\$ 1,614,768	\$ 1,297,601
Receivables:		
Employer contributions	783,000	694,666
Participants' contributions	7,009	2,984
Refundable annuities	-	956
Interest on cash balances	1,687	2,962
Total receivables	791,696	701,568
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	47,386,171	52,154,420
Equipment, net of accumulated depreciation	1,546	2,081
Total Assets	49,794,181	54,155,670
<b>Liabilities</b>		
Benefits payable	-	6,143
Administrative expenses payable	49,285	31,356
Due to Judges' Retirement System of Illinois	68,594	67,604
Total Liabilities	117,879	105,103
Net assets held in trust for pension benefits	\$49,676,302	\$ 54,050,567
<i>(A schedule of funding progress is presented on page 24.)</i>		
<i>See accompanying notes to financial statements.</i>		

## Financial Statements

# GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Changes in Plan Net Assets  
Years Ended June 30, 2003 and 2002

	2003	2002
Additions:		
Contributions:		
Participants	\$ 1,954,169	\$ 1,552,295
Employer	5,433,781	4,721,478
Total contributions	<u>7,387,950</u>	<u>6,273,773</u>
Investments:		
Net investment income	1,071,966	1,346,042
Interest earned on cash balances	35,155	43,745
Net (depreciation) in fair value of investments	<u>(1,340,215)</u>	<u>(5,304,627)</u>
Total net investment (loss)	<u>(233,094)</u>	<u>(3,914,840)</u>
Total Additions	<u>7,154,856</u>	<u>2,358,933</u>
Deductions:		
Benefits:		
Retirement annuities	9,159,794	8,111,247
Survivors' annuities	1,971,683	1,841,986
Total benefits	<u>11,131,477</u>	<u>9,953,233</u>
Refunds of contributions	106,713	68,205
Administrative expenses	<u>290,931</u>	<u>284,775</u>
Total Deductions	<u>11,529,121</u>	<u>10,306,213</u>
Net (Decrease)	<u>(4,374,265)</u>	<u>(7,947,280)</u>
Net assets held in trust for pension benefits:		
Beginning of year	<u>54,050,567</u>	<u>61,997,847</u>
End of year	<u>\$ 49,676,302</u>	<u>\$ 54,050,567</u>

See accompanying notes to financial statements.



Financial Statements

GENERAL ASSEMBLY RETIREMENT SYSTEM,  
STATE OF ILLINOIS

Notes to Financial Statements June 30, 2003 and 2002

1. Reporting Entity

Generally accepted accounting principles require that the financial reporting entity include (1) the primary government (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The General Assembly Retirement System (System) is administered by a Board of Trustees consisting of seven persons, which include the President of the Senate, ex officio, or his designee, two members of the Senate appointed

by the President of the Senate, three members of the House of Representatives appointed by the Speaker of the House of Representatives, and one person elected from the member annuitants.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

Pursuant to federal tax law and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of paying benefits in accordance with Section 415 of the Internal Revenue Code. The receipts and disbursements from the fund for fiscal years 2003 and 2002 were each less than \$30,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

2. Plan Description

The System is the administrator of a single-employer defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its participants.

a. Eligibility and Membership

The General Assembly Retirement System covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. Participation by eligible persons is optional.

At June 30, 2003 and 2002, the System membership consisted of:		
	2003	2002
Retirees and beneficiaries		
currently receiving benefits:		
Retirement annuities	254	227
Survivors' annuities	126	123
Reversionary annuities	3	3
	383	353
Inactive participants entitled to benefits		
but not yet receiving them	113	105
Total	496	458
Current participants:		
Vested	127	145
Nonvested	55	36
Total	182	181
Operation of the System and the direction of its policies are the responsibility of the Board of Trustees.		

## b. Contributions

In accordance with Chapter 40 Section 5/2-126 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities and automatic annual increases. Contributions are excluded from gross income for Federal and State income tax purposes.

The statutes governing the General Assembly Retirement System provide for optional contributions by participants, with interest at prescribed rates, to retroactively establish service credits for periods of prior creditable service.

The total contribution rate is 11.5% as shown below:

8.5%	Retirement annuity
2.0%	Survivors' annuity
1.0%	Automatic annual increases
<u>11.5%</u>	

The Board of Trustees has adopted the policy that interest payments by a participant, included in optional contributions to retroactively establish service credits, shall be considered an integral part of the participant's investment in annuity expectancies and, as such, shall be included as a part of any refund payable.

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in Chapter 40, Article 5/2 of the Illinois Compiled Statutes.

## c. Benefits

After eight years of credited service, participants have vested rights to retirement benefits beginning at age 55, or after four years of service with retirement benefits beginning at age 62.

3.0%	for each of the first 4 years of service
3.5%	for each of the next 2 years of service
4.0%	for each of the next 2 years of service
4.5%	for each of the next 4 years of service
5.0%	for each year of service in excess of 12 years

The retirement annuity is determined according to the formula in the box above based upon the participants' final rate of salary. The maximum retirement annuity payable is 85% of the final rate of salary.

The General Assembly Retirement System also provides annual automatic annuity increases for retirees and survivors, survivors' annuity benefits, reversionary annuity benefits, and under specified conditions, lump-sum death benefits. Participants who terminate service may receive, upon application, a refund of their total contributions.

## 3. Summary of Significant Accounting Policies and Plan Asset Matters

### a. Basis of Accounting

The financial transactions of the System are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles.

Participant and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan.

The System has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989, that do not contradict GASB Pronouncements.

### b. Cash and Investments

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement.

## Financial Statements

## Financial Statements

Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The ISBI's master custodian is The Northern Trust Company. The agent of the master custodian is the Depository Trust Company.

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes (ILCS) and are maintained in the ISBI Commingled Fund. The ISBI reports securities at fair value. Where appropriate, the fair value includes estimated disposition costs.

Fair value for stocks is determined by using the closing price listed on the national securities exchanges as of June 30. Market value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. For commingled equity funds, the net asset value is determined and certified by the commingled equity fund manager as of June 30. Fair value for directly owned real estate investments is determined by appraisals.

Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake. The ISBI does not have any one investment which represents 5 percent or more of the ISBI's net assets.

The ISBI participates in a securities lending program at its custodian bank, whereby securities are loaned to brokers and, in return, the ISBI has rights to a portion of a collateral pool. All of the ISBI's securities are eligible for the securities lending program. Collateral consists solely of cash, letters of credit, commercial paper and government securities having a market value equal to or greater than the securities loaned. There are no provisions for ISBI indemnification on the securities lending transactions. The ISBI had no credit risk as a result of its securities lending program as the collateral held exceeded the market value of the securities lent. As of June 30, 2003 and 2002 the ISBI had outstanding loaned investment securities having market values of \$676,614,658 and \$671,816,775, respectively, against which it had received collateral with values of \$699,833,455 and \$692,016,339, respectively.

Some of the ISBI managers invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. The ISBI's investments in derivatives are not leveraged. Obligations to purchase (long a financial future or a call option) are held in cash or cash equivalents. In the case of obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. The ISBI Board and senior management approve these limits, and the risk positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

During the year, derivative investments included forward foreign currency contracts, collateralized mortgage obligations (CMO's), futures and options. The remaining derivative securities are used to improve the yields or to hedge changes in interest rates.

## Financial Statements

Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios. Forward foreign currency contracts are agreements to buy or sell specific amounts of a foreign currency at a specified delivery or maturity date for an agreed upon price. As the market value of the forward contracts vary, the ISBI Board records an unrealized gain or loss. Forward foreign currency contracts represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The market value of forward foreign currency contracts outstanding at June 30, 2003 and 2002, were as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Forward currency purchases	\$ 67,363,443	\$ 29,414,978
Forward currency sales	67,381,163	28,903,056
Unrealized gain (loss)	(17,720)	511,922

The ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of June 30, 2003 and 2002, the fair value of the ISBI Board's CMO holdings totaled \$112,763,325 and \$79,247,018, respectively.

The ISBI investment managers utilize financial futures to replicate an underlying security they desire to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Financial future contracts are also used to improve the yield or adjust the duration of the portfolio. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed upon price. As the market values of the futures contracts vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities

to meet these obligations are held in the investment portfolio.

The ISBI Board's investment managers utilize options in an effort to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. As the writer of financial options, the ISBI receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the instrument underlying the option. As the purchaser, the ISBI pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

The following table shows the futures and options positions held by the ISBI as of June 30, 2003:

	Number of Contracts	Contract principal*
Domestic:		
Equity futures purchased	207	\$ 50,368,275
Fixed income futures purchased	20	2,346,875
Fixed income futures sold	883	103,029,906
Fixed income purchased put options	330	850,125
Fixed income written put options	586	276,005
Fixed income purchased call options	238	12,234
Fixed income written call options	1,220	885,688

*\* Contract principal amounts shown represent the market value of the underlying assets the contracts control. These are shown to present the volume of the transactions but does not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual*

The System owns approximately 1.0% of the net investment assets of the ISBI Commingled Fund as of June 30, 2003. A schedule of investment expenses is included in the ISBI's annual report.

For additional information on ISBI's investments, please refer to their Annual Report as of June 30, 2003. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

## Financial Statements

ISBI investments, as categorized by ISBI, are categorized to indicate the level of risk assumed by the ISBI at year end.

- Category I includes investments that are insured or registered or the securities are held by the master custodian in the ISBI's name.
- Category II includes uninsured and unregistered investments with the securities held by the counterparty's agent in the ISBI's name.
- Category III includes uninsured and unregistered investments with the securities held by the counterparty but not in the ISBI's name.

Investments in pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are borne 40% by the General Assembly Retirement System and 60% by the Judges' Retirement System.

Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2003 and 2002, were \$246,080 and \$237,029, respectively.

### e. Risk Management

The System, as part of the primary government of the State, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. The System obtains commercial insurance for fidelity, surety, and property. There have been no commercial insurance claims in the past three fiscal years.

## 4. Funding - Statutory Contributions Required and Contributions Made

For each fiscal year, the System's actuary performs an actuarial valuation and computes actuarially determined contribution requirements for the System, using the projected unit credit actuarial cost method.

For fiscal years 2003 and 2002, the required employer contributions were computed in accordance with Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%.

In addition, the funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level

### ISBI's investments categorized as of June 30, 2003

	Fair Value	Category I	Non Categorized
U.S. Government & Agency Obligations	\$ 862,128,328	\$862,128,328	\$ —
Foreign Obligations	181,133,769	181,133,769	—
Corporate Obligations	695,789,042	619,009,736	76,779,306
Convertible Bonds	861,871	861,871	—
Common Stock & Equity Funds	3,772,803,315	3,462,973,227	309,830,088
Convertible Preferred Stock	4,263	4,263	—
Preferred Stock	4,402,445	4,402,445	—
Foreign Equity Securities	1,174,665,480	1,144,903,493	29,761,987
Real Estate Funds	614,846,458	—	614,846,458
Alternative Investments	441,537,163	—	441,537,163
Money Market Instruments	283,727,618	—	283,727,618
Forward Foreign Exchange Contracts	(17,720)	(17,720)	—
Total Investments	<u>\$ 8,031,882,032</u>	<u>\$ 6,275,399,412</u>	<u>\$ 1,756,482,620</u>

### c. Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed as of June 30, 2002.

### d. Administrative Expenses

Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees.



percentage of payroll for the next 35 years until the 90% funded level is achieved.

The total amount of statutorily required employer contributions for fiscal years 2003 and 2002 was \$5,163,000 and \$4,678,000, respectively. The total amount of employer contributions received from the state during fiscal years 2003 and 2002 was \$5,163,000 and \$4,678,000, respectively.

## 5. Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 2003 and 2002 is listed at right.

## 6. Equipment

Capital assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, and (3) certain electronic data processing equipment - 3 years.

## 7. Accrued Compensated Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after December 31, 1983 and prior to January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2003 and 2002 total \$26,909 and \$27,580, respectively and are included in administrative expenses payable.

## Financial Statements

### Administrative expenses for fiscal years 2003 and 2002

	2003	2002
Personal services	\$162,972	\$156,235
Employee retirement contributions paid by employer	6,287	6,257
Employer retirement contributions	16,851	15,705
Social Security contributions	11,236	10,604
Group insurance	19,646	20,169
Contractual services	60,591	60,087
Travel	1,819	1,671
Printing	1,583	1,639
Commodities	430	284
Telecommunications	1,653	1,625
Electronic data processing	7,483	5,688
Depreciation	883	1,771
Change in accrued compensated absences	(671)	3,040
Other	168	-
Total	<u>\$290,931</u>	<u>\$284,775</u>

### Summary of the changes in equipment for fiscal years 2003 and 2002

	Beginning Balance	2003		Ending Balance
		Additions	Deletions	
Equipment	\$ 28,340	\$ 516	\$ (309)	\$ 28,547
Accumulated depreciation	(26,259)	(883)	141	(27,001)
Equipment, net	<u>\$ 2,081</u>	<u>\$ (367)</u>	<u>\$ (168)</u>	<u>\$ 1,546</u>

	Beginning Balance	2002		Ending Balance
		Additions	Deletions	
Equipment	\$ 28,663	\$ 1,019	\$ (1,342)	\$ 28,340
Accumulated depreciation	(25,830)	(1,771)	1,342	(26,259)
Equipment, net	<u>\$ 2,833</u>	<u>\$ (752)</u>	<u>\$ -</u>	<u>\$ 2,081</u>

Financial Statements

8. Pension Plan

**Plan Description.** All of the System's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity.

The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems.

The financial position and results of operations of the SERS for fiscal years 2003 and 2002 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2003 and 2002, respectively. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling 217-785-7202.

The State of Illinois' CAFR may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams St., Springfield, Illinois, 62704-1858 or by calling 217-782-2053.

A summary of SERS' benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute, and the authority under which those obligations are established.

**Funding Policy.** The System pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal years 2003 and 2002 the employer contribution rates were 10.321% and 10.04%, respectively.

Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most state agencies with employees covered by the State Employees' and Teachers' Retirement Systems.

The "pickup" is subject to sufficient annual appropriations and those employees covered may vary across employee groups and state agen-

cies. Currently, state officers, judges, general assembly members, and state university employees are not eligible for the employee pickup.

**Other Post-Employment Benefits.** In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System.

Substantially all state employees including the System's employees may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the years ended June 30, 2003 and 2002. However, post-employment costs for the state as a whole for all state agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois' Comprehensive Annual Financial Report.

Cost information for retirees by individual state agency is not available. Payments are made on a "pay-as-you-go" basis. The System is not the administrator of any of the other post-employment benefits described above.

9. Analysis of Changes in Reserve Balances

The funded statutory reserves of the General Assembly Retirement System are composed of two components as follows:

**a. Reserve for Participants' Contributions**  
This reserve consists of participants' accumulated contributions for retirement annuities, survivors' annuities and automatic annual increases.

**b. Reserve for Future Operations**  
This reserve is the balance remaining in the General Assembly Retirement System from



State of Illinois contributions and revenue from investments after consideration of charges for payouts by the General Assembly Retirement System.

## 10. Subsequent Event

On April 7, 2003, Governor Rod Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This new law authorized the State of Illinois to issue \$10,000,000,000 of General Obligation Bonds for the purpose of making contributions to designated retirement systems. The General Assembly Retirement System (GARS) is one of the “designated retirement systems” for the purpose of this new law. In addition, the “Pension Contribution Fund” was created as a special fund in the State Treasury.

On June 12, 2003, the State of Illinois issued \$10,000,000,000 of General Obligation Bonds, Pension Funding Series of June 2003, and deposited the net bond proceeds of \$7,317,292,916 into the Pension Contribution Fund. Bond proceeds of \$2,682,707,084 will be utilized (1) to reimburse the General Revenue Fund for the last quarter of the State’s fiscal year 2003

required contributions and the total fiscal year 2004 required contributions to the designated retirement systems (\$2,160,000,000); (2) to fund interest payments due December 1, 2003 and June 1, 2004 on the General Obligation Bonds, Pension Funding Series of June 2003 (\$481,038,334); and (3) bond issuance and other costs (\$41,668,750).

The net bond proceeds of \$7,317,292,916 were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in P.A. 93-0002. Pursuant to the amendments to the General Obligation Bond Act (30ILCS 330/7.2) contained in that act, the Governor’s Office of Management and Budget has determined the percentage distribution of the proceeds. The allocation of the proceeds was based on the percentage distribution of the State’s total actuarial reserve deficiency as of June 30, 2002.

GARS received an allocation of bond proceeds equal to \$27,073,983 on July 1, 2003. The monies were deposited into its Master Trust account with the Illinois State Board of Investment, on July 2, 2003.

## Financial Statements

### Statements of Changes in Reserve Balances Years Ended June 30, 2003 and 2002

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2001	\$14,667,801	\$47,330,046	\$61,997,847
Add (deduct):			
Excess of revenues over/(under) expenses	1,527,568	(9,474,848)	(7,947,280)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(842,207)	842,207	—
Balance at June 30, 2002	15,353,162	38,697,405	54,050,567
Add (deduct):			
Excess of revenues over/(under) expenses	2,118,238	(6,492,503)	(4,374,265)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(2,839,904)	2,839,904	—
Balance at June 30, 2003	\$14,631,496	\$35,044,806	\$49,676,302

## Required Supplementary Information

### SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/98	\$62,737,590	\$150,408,448	\$87,670,858	41.7%	\$10,005,000	876.3%
6/30/99	66,832,508	160,870,755	94,038,247	41.5	10,467,000	898.4
6/30/00	70,471,444	169,362,915	98,891,471	41.6	10,763,000	918.8
6/30/01	61,997,847	177,546,144	115,548,297	34.9	11,479,000	1,006.6
6/30/02	54,050,567	184,582,544	130,531,977	29.3	12,089,000	1,080.0
6/30/03	49,676,302	196,510,067	146,833,765	25.3	12,638,000	1,161.8

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
1998	\$5,318,505	58.5%	\$3,113,000	100.0%
1999	6,092,002	60.7	3,504,000	105.6
2000	6,311,995	62.6	3,951,000	100.0
2001	6,530,519	65.9	4,305,000	100.0
2002	6,961,911	67.2	4,678,000	100.0
2003	7,752,005	66.6	5,163,000	100.0

### Notes to Required Supplementary Information

Valuation date: June 30, 2003

Actuarial cost method: Projected Unit Credit

Amortization method:

- a. For GASB Statement No. 25 reporting purposes: Level percent of payroll
- b. Per state statute: 15-year phase-in to a level percent of payroll until a 90% funding level is achieved

Remaining amortization period:

- a. For GASB Statement No. 25 reporting purposes: 40 years, open
- b. Per state statute: 42 years, closed

Asset valuation method: Fair value

Actuarial assumptions:

- Investment rate of return: 8.0 percent per year, compounded annually
- Projected salary increases: 6.5 percent per year, compounded annually
- Assumed inflation rate: 4.0 percent
- Group size growth rate: 0.0 percent
- Post-retirement increase: 3.0 percent per year, compounded annually

## SUMMARY OF REVENUES BY SOURCE *Supplementary Financial Information*

Years Ended June 30, 2003 and 2002

	2003	2002
Contributions:		
Participants:		
Participants	\$ 1,590,543	\$ 1,437,146
Repayment of refunds	12,653	-
Interest paid by participants	226,686	7,063
Transferred from reciprocating systems	124,287	108,086
Total participant contributions	<u>1,954,169</u>	<u>1,552,295</u>
Employer:		
General Revenue Fund	4,698,000	4,168,000
State Pension Fund	465,000	510,000
Paid by participants	135,612	-
Received from reciprocating systems	135,169	43,478
Total employer contributions	<u>5,433,781</u>	<u>4,721,478</u>
Total contributions revenue	<u>7,387,950</u>	<u>6,273,773</u>
Investments:		
Net investment income	1,071,966	1,346,042
Interest earned on cash balances	35,155	43,745
Net (depreciation) in fair value of investments	(1,340,215)	(5,304,627)
Total net investment (loss)	<u>(233,094)</u>	<u>(3,914,840)</u>
Total revenues	<u>\$ 7,154,856</u>	<u>\$ 2,358,933</u>

## SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 2003 and 2002

	2003	2002
Cash balance, beginning of year	\$ 1,297,601	\$ 1,632,080
Receipts:		
Participant contributions	1,781,565	1,529,385
Employer contributions:		
General Revenue Fund	4,609,666	3,473,334
State Pension Fund	465,000	510,000
Paid by participants	135,612	-
Received from reciprocating systems	135,169	43,478
Interest income on cash balances	36,430	46,973
After-tax installment payments	-	4,166
Tax-deferred installment payments	5,087	15,763
Repayment of refunds	27,547	-
Cancellation of annuities	1,355	4,336
Cancellation of refunds	-	560
Transfers from Illinois State Board of Investment	4,500,000	4,350,000
Transfers from reciprocating systems	124,287	-
Miscellaneous	130	-
Total cash receipts	<u>11,821,848</u>	<u>9,977,995</u>
Disbursements:		
Benefit payments:		
Retirement annuities	9,160,193	8,125,735
Survivors' annuities	1,977,826	1,838,939
Refunds	95,055	72,283
Administrative expenses	271,607	275,517
Total cash disbursements	<u>11,504,681</u>	<u>10,312,474</u>
Cash balance, end of year	<u>\$ 1,614,768</u>	<u>\$ 1,297,601</u>

Supplementary Financial Information

SCHEDULE OF PAYMENTS TO CONSULTANTS  
Years Ended June 30, 2003 and 2002

	2003	2002
Actuary	\$15,000	\$15,000
Audit fees	18,554	18,059
Legal services	330	73
Medical services	430	-
Total	<u>\$34,314</u>	<u>\$33,132</u>

# INVESTMENT SECTION

Investment Section

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI). The ISBI was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state.

In addition to the assets of the General Assembly Retirement System, the ISBI also manages the investment function for the State Employees' and Judges' Retirement Systems. All ISBI investments are accounted for in a commingled fund (ISBI Fund).

As of June 30, 2003, total net assets under management valued at market, amounted to \$7.801 billion. Of the total market value of assets under management, \$47.4 million or approximately 1% represented assets of the General Assembly Retirement System.

A summary of the portfolio's largest holdings, as well as the complete listing of the ISBI portfolio, are included in the ISBI Annual Report. A schedule of fees and commissions paid by brokerage firm and a listing of transactions executed, including transaction value, are also contained in the ISBI Annual Report. The following investment information and analysis has been prepared by the ISBI.

Investment Policy

The ISBI operates under a strategic investment policy that is reviewed and approved at least every two years. The investment objective of the total portfolio is to maximize the rate of return on investments within a prudent level of risk. To achieve this objective, the ISBI invests in different types of assets and uses multiple managers to ensure diversification.

Over an investment cycle, the ISBI seeks to achieve a rate of return that is at least equal to the assumed actuarial interest rate, currently 8.0% per year, and at least equal to the return of the policy-weighted benchmark, a theoretical "indexed" implementation of the ISBI's asset allocation policy.

Asset Allocation

The investment policy of the ISBI Board establishes asset allocation targets and ranges for each asset class, selected to achieve overall risk and return objectives. This policy is implemented by allocations to investment managers with assignments to invest in specific asset classes, with defined security selection styles and methodologies.

The targeted policy asset allocation at June 30, 2003 was 46% U.S. Equities, 15% international equities, 23% fixed income, 8% real estate, and 8% alternative investments. The actual allocation of the portfolio at June 30, 2003, relative to the target is set forth in the table below.

Investment Results

World equity markets continued their corrections during fiscal year 2003. The ISBI total fund was up 0.3% for fiscal year 2003, net of expenses. This follows on a negative result for fiscal year 2002. While the long-term objective of exceeding the 8.0% assumed actuarial interest rate was not met, the return also lagged the policy-weighted benchmark return of 3.5%. The ISBI total fund return over the three, five and ten year time periods was a negative 4.6% and a positive 1.8% and 7.8%, respectively.

	Actual Asset Allocation	Policy Target
U.S. Equities	49%	46%
International Equities	15	15
Fixed Income	22	23
Real Estate	8	8
Alternative Investments	6	8
Total	100%	100%

## Investment Section

### U.S. Equities

For the twelve months ended June 30, 2003, the Russell 3000 Index, a broad representation of the U.S. Market, was up a modest 0.8%. Growth stocks exceeded value stocks, with the Russell 3000 Growth Index up 2.8%, compared to the Russell 3000 Value Index down 1.2%. Large capitalization stocks outperformed small capitalization stocks, with the S&P 500 Index up 0.3% compared with the Russell 2000 Index down 1.6%. The ISBI's U.S. equity portfolio was up 0.9% for the fiscal year, slightly above the Russell 3000 Index. The ISBI Board, through structure analysis, rebalancing, and risk management, has achieved the objective of tracking the market with predictable consistency. The ISBI's ten-year average annual return on U.S. equities of 9.8% shows that even considering the losses in prior years, the U.S. stock market has rewarded the long-term investor.

#### U.S. EQUITIES

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
ISBI	0.9%	(8.8)%	(0.3)%
S&P 500 Stock Index	0.3	(11.2)	(1.6)
Russell 3000 Index	0.8	(10.5)	(1.1)

### International Equities

Foreign markets succumbed to some of the anxieties besetting U.S. Equities. The Morgan Stanley All-Country Free ex US ("MS-AC Free ex US") Index was negative 4.2% for the fiscal year, about four percentage points below the U.S. return. The ISBI's international equity portfolio, down 7.5%, lagged the benchmark for the fiscal year. As with the U.S. equity portfolio, the ISBI Board has the twin objectives of limiting tracking error relative to the benchmark and adding value with active management.

#### INTERNATIONAL EQUITIES

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
ISBI	(7.5)%	(11.8)%	(2.6)%
MS-AC Free ex US Index	(4.2)	(12.5)	(2.8)

### Fixed Income

The ISBI fixed income portfolio had a positive return of 8.3% for the fiscal year compared to the Lehman U.S. Universal Bond Index which returned 11.5% for the year. During the fiscal year, the ISBI transitioned approximately two-thirds of the fixed income assets to three diversified external managers. The remaining internal portfolio was structured to be a risk-constrained investment grade portfolio. The ISBI Board believes that the new structure will minimize the negative surprises such as those experienced during fiscal year 2002, and result in more predictable fixed income returns.

#### FIXED INCOME

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
ISBI	8.3%	7.7%	6.1%
Lehman U.S. Univ. Bond Index	11.5	10.0	7.4



Investment Section

REAL ESTATE			
	1 Year	3 Years	5 Years
ISBI	2.2%	6.8%	6.1%
NCREIF Real Estate Index	5.2	8.6	10.2

Real Estate

The ISBI's real estate portfolio earned 2.2%. NCREIF Real Estate Index, a measure of core, operating, non-leveraged real estate, earned 5.2%. Prior to fiscal year 2001, the ISBI Board's real estate policy was to seek higher return real estate opportunities while controlling for risk and investments focused on value-added or opportunistic strategies. However, over the last three years, the ISBI Board has increased the real estate strategic allocation from 5% to 8% of the total fund with the new allocation targeting 50% of its real estate to core, income producing real estate, with the balance in higher return strategies. The ISBI's current investments in real estate are represented by interests in limited partnerships, trusts, and other forms of pooled investments.

Alternative Investments

Overall, the ISBI's alternative investments portfolio lost 4.9% for the fiscal year. The alternative investments portfolio consists of interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts, and other private placement activities. In spite of the setbacks of the last few years, long-term results show that alternative investments remain the best performing asset class for the ten-year period ended June 30, 2003.

Management Expenses

Total ISBI expenses for fiscal year 2003 were \$16.8 million, compared to \$18.6 million for fiscal year 2002. The resulting expense ratio (expenses divided by average net assets) was 0.23% in fiscal year 2003 and fiscal year 2002.

## Investment Section

## INVESTMENT PORTFOLIO SUMMARY

	June 30, 2003		June 30, 2002	
Investments, at fair value				
U.S. Government and Agency Obligations	\$ 862,128,328	11.05%	\$ 1,057,628,472	13.34%
Foreign Obligations	181,133,769	2.32	84,261,722	1.06
Corporate Obligations	695,789,042	8.92	807,243,888	10.18
Convertible Bonds	861,871	0.01	159,060	0.00
Common Stock & Equity Funds	3,772,803,315	48.36	3,573,004,993	45.08
Convertible Preferred Stock	4,263	0.00	75,520	0.00
Preferred Stock	4,402,445	0.06	8,051	0.00
Foreign Equity Securities	1,174,665,480	15.06	1,231,600,202	15.53
Real Estate Funds	614,846,458	7.88	417,054,183	5.26
Alternative Investments	441,537,163	5.66	414,830,358	5.23
Money Market Instruments	283,727,618	3.64	345,095,683	4.35
Forward Foreign Exchange Contracts	(17,720)	0.00	511,922	0.01
	<u>8,031,882,032</u>	<u>102.96</u>	<u>7,931,474,054</u>	<u>100.04</u>
Other Assets, Less Liabilities	(230,860,822)	(2.96)	(3,145,553)	(.04)
Net Assets, at Fair Value	<u>\$ 7,801,021,210</u>	<u>100.0%</u>	<u>\$ 7,928,328,501</u>	<u>100.0%</u>

ANALYSIS OF INVESTMENT PERFORMANCE<sup>(1)</sup>

	2003	2002	2001	2000	1999
Total Return* - Past 3 years	(4.6)%				
Total Return* - Past 5 years	1.8%				
Total Return* - year by year	0.3%	(6.9)%	(7.1)%	11.8%	12.9%
Actuarial Assumed Rate of Return	8.0%				
Average Net Income Yield*	2.3%	2.4%	2.6%	2.4%	2.8%
<b>Comparative rates of return on fixed income securities</b>					
Total fixed income - ISBI	8.3%	5.5%	9.5%	4.0%	3.4%
Comparison index:					
Lehman U.S. Universal Bond Index	11.5%	7.7%	10.8%	4.8%	2.7%
<b>Comparative rates of return on equities</b>					
Domestic equities - ISBI	0.9%	(14.6)%	(10.3)%	10.3%	17.3%
Comparison index:					
S&P 500	0.3%	(18.0)%	(14.8)%	7.2%	22.7%

<sup>(1)</sup>The Northern Trust Company, the ISBI's master custodian, provides performance rates of return by portfolio, portfolio aggregation and the respective indices in accordance with the Association for Investment Management and Research (AIMR) performance presentation standards.

\* Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

## Investment Section

### ADDITIONAL INVESTMENT INFORMATION

The following table shows a comparison of ISBI investment operations for fiscal years 2003 and 2002:

	2003	2002	Increase/(Decrease)	
			Amount	Percentage
Balance at beginning of year,				
at fair value	\$52,154,420	\$60,463,005	\$ (8,308,585)	(13.7)%
Cash transferred from ISBI (net)	(4,500,000)	(4,350,000)	150,000	3.4
Net ISBI investment revenue:				
ISBI Commingled Fund income	1,176,330	1,472,358	(296,028)	(20.1)
Less ISBI Expenses	(104,364)	(126,316)	(21,952)	(17.4)
Net ISBI investment income	1,071,966	1,346,042	(274,076)	(20.4)
Net (depreciation) in fair value				
of ISBI investments	(1,340,215)	(5,304,627)	(3,964,412)	(74.7)
Net ISBI investment (loss)	(268,249)	(3,958,585)	(3,690,336)	(93.2)
Balance at end of year, at fair value	<u>\$47,386,171</u>	<u>\$52,154,420</u>	<u>\$ (4,768,249)</u>	<u>(9.1)%</u>

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2003 was \$35,155 compared to \$43,745 during FY 2002.

# ACTUARIAL SECTION

## Actuary's Certification Letter

**GOLDSTEIN & ASSOCIATES**  
*Actuaries and Consultants*

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CHICAGO, ILLINOIS 60603  
PHONE (312) 726-5877 FAX (312) 726-4323

October 7, 2003

Board of Trustees and Executive Secretary  
General Assembly Retirement System of Illinois  
2101 South Veterans Parkway  
P.O. Box 19255  
Springfield, Illinois 62794

### ACTUARIAL CERTIFICATION

We have completed the annual actuarial valuation of the General Assembly Retirement System of Illinois as of June 30, 2003. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system.

There have been no changes in the benefit provisions of the system during the period between the date of the last actuarial valuation and the date of the current valuation.

Pursuant to the law governing the system, the actuary shall investigate the experience of the system at least once every five years and recommend, as a result of such investigation, the actuarial assumptions to be adopted. As the actuary, we have completed such an experience analysis for the five-year period 1996-2001. Based on this experience analysis, we recommended actuarial assumptions which were adopted by the system's board effective June 30, 2002 and which were used for the current valuation. We believe that, in the aggregate, the current actuarial assumptions relate reasonably to the past and anticipated experience of the system.

Section 5/2-124 of the Illinois Pension Code specifies the funding plan currently in effect for the system. The financing objective under this plan is to have the required State contributions sufficient to bring the total assets of the system up to 90% of the total actuarial liabilities by the end of fiscal year 2045. For fiscal years 2011 through 2045, the required State contributions are to be a level percentage of payroll. For fiscal years 1996 through 2010, the State contribution shall be increased as a percentage of the applicable payroll in equal annual increments so that by fiscal year 2011, the State is contributing at the required rate.

Public Act 93-0002, effective April 7, 2003, authorized the sale of \$10 billion in General Obligation Bonds (GOB). On July 1, 2003, the General Assembly Retirement System received \$27,073,983 from the GOB proceeds. Under changes made to the funding plan by Public Act 93-0002, the State contribution for each year shall not exceed:

1. The State contribution that would have been required had the GOB program not been in effect, reduced by
2. The total debt service for each year for the system's portion of the GOB proceeds.

## Actuary's Certification Letter

### GOLDSTEIN & ASSOCIATES

*Actuaries and Consultants*

Based on the June 30, 2003 actuarial valuation, we have determined the required State contribution under this funding plan as modified by Public Act 93-0002 for fiscal year 2005. We have also estimated the required State contributions for future years.

The system's current funding plan does not meet the requirements for amortizing the unfunded liability provided under GASB Statement No. 25. In all other respects, the assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by GASB Statement No. 25.

The asset values used for the valuation were based on the audited asset information reported by the system. For purposes of the current valuation, the market value of the assets of the system, less the amount of liabilities, was used.

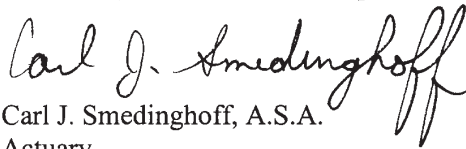
The actuarial liabilities have been valued on the basis of membership data, which is supplied by the administrative staff of the system and verified by the system's auditors. We have made additional tests to ensure its accuracy.

In our opinion, the information presented herein fairly presents the financial condition of the General Assembly Retirement System of Illinois as of June 30, 2003. We prepared the accompanying Actuarial Cost Method and Summary of Major Actuarial Assumptions. The staff of the retirement system prepared the other supporting schedules in this section and the trend tables in the financial section, based on information contained in our actuarial reports.

Respectfully submitted,



Sandor Goldstein, F.S.A.  
Consulting Actuary



Carl J. Smedinghoff, A.S.A.  
Actuary

Actuarial Section

INTRODUCTION

Annually, the System's actuarial consultants perform a valuation of the liabilities and reserves of the System in order to make a determination of the amount of contributions required from the state. These results are then certified to the Board.

The Board, in turn, has the duty of certifying an employer contribution amount, required to be paid to the System by the state during the succeeding fiscal year.

The employers' contribution amount, together with participants' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial requirements, pursuant to Chapter 40, Section 5/2-146 of the Illinois Compiled Statutes.

In August, 1994, Senate Bill 533 was signed into law as Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides that:

- For fiscal years 2011 through 2045, the minimum contribution to the System for each fiscal year shall be an amount determined to be sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System by the end of fiscal year 2045. In making these determinations, the required contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be determined under the projected unit credit actuarial cost method.
- For fiscal years 2003 through 2010, the contribution to the System, as a percentage of the payroll, shall be increased in equal annual increments so that by fiscal year 2010 the contribution rate is at the same level as the contribution rate for fiscal years 2011 through 2045.
- Beginning in fiscal year 2045, the minimum contribution to the System for each fiscal year shall be the amount needed to maintain the total assets of the System at 90% of the total actuarial liabilities of the System.

The amortization period required by the state's funding plan, as described above, does not meet the parameters of GASB Statement No. 25.

Most importantly, the funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This has, in effect, removed the appropriation of these funds from the annual budgetary process.

Although long-term in nature, we believe that this legislation has been an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the General Assembly Retirement System.

For fiscal years 2003 and 2002, the System received the actuarially determined employer contributions in accordance with the state's funding plan described above.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

The System utilizes the projected unit credit actuarial cost method. Under this method, the actuarial liability is the actuarial present value or that portion of a participant's projected benefit that is attributable to service to date on the basis of future compensation projected to retirement. The normal cost represents the actuarial present value of the participant's projected benefit that is attributable to service in the current year, again based on future compensation projected to retirement.

Actuarial gains and losses are recognized immediately in the unfunded actuarial liability of the System. However, for purposes of determining future employer contributions, the actuarial gains and losses are amortized in accordance with the funding plan established by Public Act 88-0593.



## DESCRIPTION OF THE ACTUARIAL ASSUMPTIONS UTILIZED FOR FISCAL YEARS 2003 AND 2002

## Actuarial Section

**Dates of Adoption:** The Projected Unit Credit Normal Cost Method was adopted June 30, 1987; all other assumptions were adopted June 30, 2002.

**Mortality Rates:** Active and retired members: The UP-1994 Mortality Table for Males. Spouses: The UP-1994 Mortality Table for Females.

**Salary Increase:** A salary increase assumption of 6.5% per year (consisting of a general increase component of 4.5% per year, 4.0% of which is attributable to inflation, and a seniority/merit component of 2.0% per year), compounded annually, was used. In determining total covered payroll, the size of the active group is assumed to remain constant.

**Interest Rate:** An interest rate assumption of 8.0% per year (consisting of an inflation component of 4.0% per year and a real rate of return component of 4.0% per year), compounded annually, was used.

**Marital Status:** It was assumed that 75% of active participants will be married at the time of retirement.

**Spouse's Age:** The age of the spouse was assumed to be 4 years younger than the age of the participant.

**Termination Rates:** Termination rates based on the recent experience of the System were used. The following is a sample of the termination rates that were used:

Age	Rate of Termination
20 - 65	.070
66 and over	.000

**Disability Rates:** Disability rates based on the recent experience of the System as well as on published disability rate tables were used. The following is a sample of the disability rates that were used:

Age	Rate of Disability	Age	Rate of Disability
30	.00057	45	.00115
35	.00064	50	.00170
40	.00083	55 and over	.00000

**Retirement Rates:** Rates of retirement for each age from 55 to 80 based on the recent experience of the System were used. The following are samples of the rates of retirement that were used:

Age	Rate of Retirement
55	.20
60	.10
65	.08
70	.05
75	.05
80 and over	1.00

The above retirement rates are equivalent to an average retirement age of approximately 60.

## SUMMARY OF AND CHANGES TO THE PLAN PROVISIONS

Please refer to the Plan Summary and Legislative Section for a summary of the plan provisions and legislative amendments that were evaluated and considered by the actuary during the valuation process.

## Actuarial Section

### SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active and inactive participant contributions on deposit; 2) the liabilities for future benefits to present

retired lives; and 3) the liabilities for service already rendered by active and inactive participants. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active and inactive participants (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

### Computed Actuarial Values

Aggregate Accrued Liabilities For					Percentage of Accrued Liabilities Covered By Net Real Assets		
Fiscal Year	(1) Active and Inactive Participant Contributions	(2) Retirement and Survivor Annuitants	(3) Active and Inactive Participants (Employer Financed Portion)	Net Assets Available for Benefits*	(1)	(2)	(3)
1994	\$10,734,454	\$65,587,970	\$34,397,534	\$40,910,567	100.0%	46.0%	0.0%
1995	11,059,576	70,633,297	37,669,240	40,697,602	100.0	42.0	0.0
1996	11,732,410	73,422,443	42,210,060	51,404,258	100.0	54.0	0.0
1997	11,911,785	82,533,374	49,391,446	56,709,651	100.0	54.3	0.0
1998	12,911,744	82,807,632	54,689,072	62,737,590	100.0	60.2	0.0
1999	12,938,514	91,451,207	56,481,034	66,832,508	100.0	58.9	0.0
2000	13,697,347	93,016,774	62,648,794	70,471,444	100.0	61.0	0.0
2001	14,667,801	97,775,794	65,102,549	61,997,847	100.0	48.4	0.0
2002	15,353,162	106,247,988	62,981,394	54,050,567	100.0	36.4	0.0
2003	14,631,496	124,991,226	56,887,345	49,676,302	100.0	28.0	0.0

\* Net assets are reported at fair value for fiscal years after 1995. For all other fiscal years, net assets are reported at cost (book value).

### VALUATION RESULTS

Actuarial Liability:	June 30, 2003	June 30, 2002
For Active Participants:		
Basic retirement annuity	\$ 19,689,892	\$ 24,917,540
Annual increase in retirement annuity	5,554,155	6,903,926
Pre-retirement survivors' annuity	2,857,191	3,610,257
Post-retirement survivors' annuity	2,730,009	3,629,143
Withdrawal benefits	6,506,008	7,152,173
Disability benefits	179,013	198,580
Total	<u>37,516,268</u>	<u>46,411,619</u>
For Participants Receiving Benefits:		
Retirement annuities	108,584,665	90,657,875
Survivor annuities	16,406,561	15,590,113
Total	<u>124,991,226</u>	<u>106,247,988</u>
For Inactive Participants	<u>34,002,573</u>	<u>31,922,937</u>
Total Actuarial Liability	<u>196,510,067</u>	<u>184,582,544</u>
Net Assets, Fair Value	<u>49,676,302</u>	<u>54,050,567</u>
Unfunded Actuarial Liability	<u>\$146,833,765</u>	<u>\$130,531,977</u>

## SUMMARY OF ACCRUED & UNFUNDED ACCRUED LIABILITIES

### (Analysis of Funding)

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual

substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active participant payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

## Actuarial Section

Fiscal Year	Total Actuarial Liability	Net Assets*	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Annual Covered Payroll	Unfunded Actuarial Liability as a % of Annual Covered Payroll
1994	\$ 110,719,958	\$ 40,910,567	36.9%	\$ 69,809,391	\$ 8,597,000	812.0%
1995	119,362,113	40,697,602	34.1%	78,664,511	8,774,000	896.6%
1996	127,364,913	51,404,258	40.4%	75,960,655	8,825,000	860.7%
1997	143,836,605	56,709,651	39.4%	87,126,954	9,362,000	930.6%
1998	150,408,448	62,737,590	41.7%	87,670,858	10,005,000	876.3%
1999	160,870,755	66,832,508	41.5%	94,038,247	10,467,000	898.4%
2000	169,362,915	70,471,444	41.6%	98,891,471	10,763,000	918.8%
2001	177,546,144	61,997,847	34.9%	115,548,297	11,479,000	1,006.6%
2002	184,582,544	54,050,567	29.3%	130,531,977	12,089,000	1,080.0%
2003	196,510,067	49,676,302	25.3%	146,833,765	12,638,000	1,161.8%

\* Net assets are reported at fair value for fiscal years after 1995. For all other fiscal years, net assets are reported at cost (book value).

## SCHEDULE OF RETIRANTS & SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Annuityants				Survivors*				Total
	Beginning	Additions	Deletions	Ending	Beginning	Additions	Deletions	Ending	
1994	230	5	13	222	131	11	8	134	356
1995	222	11	14	219	134	14	6	142	361
1996	219	7	10	216	142	7	12	137	353
1997	216	14	7	223	137	6	11	132	355
1998	223	2	7	218	132	4	8	128	346
1999	218	15	9	224	128	7	5	130	354
2000	224	7	10	221	130	5	7	128	349
2001	221	11	6	226	128	5	8	125	351
2002	226	10	9	227	125	6	5	126	353
2003	227	31	4	254	126	6	3	129	383

\*Includes reversionary annuities

## Actuarial Section

### RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY 2003	FY 2002
Unfunded actuarial liability at Beginning of FY	<u>\$130,531,977</u>	<u>\$115,548,297</u>
Employer contribution requirement of normal cost plus interest on the unfunded liability	12,651,293	11,463,203
Actual employer contribution for the year	<u>5,433,781</u>	<u>4,721,478</u>
Increase in unfunded liability due to employer contributions being less than normal cost plus interest on unfunded liability	7,217,512	6,741,725
Increase in unfunded liability due to investment return lower than assumed	4,391,493	8,713,370
(Decrease) in unfunded liability due to salary increases lower than assumed	(1,793,094)	(1,520,756)
Increase in unfunded liability due to salary increases for inactive members	1,707,076	1,078,904
Increase in unfunded liability due to changes in actuarial assumptions	-	1,211,951
Increase/(Decrease) in unfunded liability due to other sources	<u>4,778,801</u>	<u>(1,241,514)</u>
Total Actuarial Losses	9,084,276	8,241,955
Net Increase in unfunded liability for the year	<u>16,301,788</u>	<u>14,983,680</u>
Unfunded actuarial liability at end of FY	<u>\$146,833,765</u>	<u>\$130,531,977</u>

### SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Active Members			
June 30	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
1994	184	\$ 8,597,000	\$ 46,723	0.5%
1995	182	8,774,000	48,209	3.2%
1996	181	8,825,000	48,757	1.1%
1997	181	9,362,000	51,724	6.1%
1998	181	10,005,000	55,276	6.9%
1999	181	10,467,000	57,829	4.6%
2000	181	10,763,000	59,464	2.8%
2001	181	11,479,000	63,420	6.7%
2002	181	12,089,000	66,790	5.3%
2003	182	12,638,000	69,440	4.0%

# STATISTICAL SECTION

## Statistical Section

### ASSET BALANCES

Fiscal Year Ended June 30	Cash	Receivables	Investments*	Fixed Assets Net of Accumulated Depreciation	Total
1994	\$ 1,177,781	\$ 3,191	\$ 39,825,825	\$ 12,120	\$ 41,018,917
1995	1,693,213	8,941	39,081,113	9,384	40,792,651
1996	1,836,256	7,600	49,643,586	5,128	51,492,570
1997	2,113,679	9,625	54,674,448	9,028	56,806,780
1998	1,643,053	12,841	61,160,683	6,583	62,823,160
1999	1,657,356	11,792	65,253,933	5,632	66,928,713
2000	1,638,076	9,721	68,916,666	4,315	70,568,778
2001	1,632,080	19,546	60,463,005	2,833	62,117,464
2002	1,297,601	701,568	52,154,420	2,081	54,155,670
2003	1,614,768	791,696	47,386,171	1,546	49,794,181

\* Investments are reported at fair value after fiscal year 1995. For all other fiscal years investments are reported at cost (book value).

### LIABILITIES AND RESERVE BALANCES

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participant Contributions	Reserve for Future Operations*	Total
1994	\$ 108,350	\$ 10,734,454	\$ 30,176,113	\$ 41,018,917
1995	95,049	11,059,576	29,638,026	40,792,651
1996	88,312	11,732,410	39,671,848	51,492,570
1997	97,129	11,911,875	44,797,866	56,806,780
1998	85,570	12,911,744	49,825,846	62,823,160
1999	96,205	12,938,514	53,893,994	66,928,713
2000	97,334	13,697,347	56,774,097	70,568,778
2001	119,617	14,667,801	47,330,046	62,117,464
2002	105,103	15,353,162	38,697,405	54,155,670
2003	117,879	14,631,496	35,044,806	49,794,181

\* The Reserve for Future Operations reflects investments reported at fair value after fiscal year 1995. For all other fiscal years, the Reserve for Future Operations reflects investments reported at cost (book value).

### REVENUES BY SOURCE

Fiscal Year Ended June 30	Participant Contributions	State of Illinois	Employer Contributions Other Sources	Total	Net Investment Revenue/(Loss)*	Total
1994	\$ 1,011,354	\$ 2,116,800	\$ -	\$ 2,116,800	\$ 3,476,303	\$ 6,604,457
1995	1,174,764	2,148,200	163,814	2,312,014	3,155,655	6,642,433
1996	1,141,155	2,400,000	-	2,400,000	7,454,578	10,995,733
1997	1,285,985	2,738,000	49,074	2,787,074	9,021,348	13,094,407
1998	1,224,533	3,113,000	-	3,113,000	9,780,815	14,118,348
1999	1,413,676	3,592,018	107,740	3,699,758	7,683,634	12,797,068
2000	1,317,542	3,951,000	-	3,951,000	7,561,684	12,830,226
2001	1,407,638	4,305,000	6,909	4,311,909	(4,650,917)	1,068,630
2002	1,552,295	4,678,000	43,478	4,721,478	(3,914,840)	2,358,933
2003	1,954,169	5,163,000	270,781	5,433,781	(233,094)	7,154,856

\* The Net Investment Revenue/(Loss) includes both realized and unrealized gains and losses on investments for fiscal years after 1995. For all other fiscal years, the Net Investment Revenue/(Loss) includes only realized gains and losses on investments.

## Statistical Section

## EXPENSES BY TYPE

Fiscal Year Ended June 30	Benefits	Refunds of Contributions	Administrative Expenses	Total
1994	\$ 6,131,496	\$ 41,590	\$ 194,494	\$ 6,367,580
1995	6,539,921	117,386	198,091	6,855,398
1996	6,991,373	90,464	202,880	7,284,717
1997	7,368,818	206,666	213,530	7,789,014
1998	7,779,442	83,392	227,575	8,090,409
1999	8,333,664	129,369	239,117	8,702,150
2000	8,840,682	97,593	253,015	9,191,290
2001	9,227,960	37,824	276,443	9,542,227
2002	9,953,233	68,205	284,775	10,306,213
2003	11,131,477	106,713	290,931	11,529,121

## BENEFIT EXPENSES BY TYPE

Fiscal Year Ended June 30	Retirement Annuities	Survivors' Annuities *	Total
1994	\$ 4,942,821	\$ 1,188,675	\$ 6,131,496
1995	5,203,413	1,336,508	6,539,921
1996	5,561,571	1,429,802	6,991,373
1997	5,912,782	1,456,036	7,368,818
1998	6,238,415	1,541,027	7,779,442
1999	6,742,033	1,591,631	8,333,664
2000	7,186,818	1,653,864	8,840,682
2001	7,505,092	1,722,868	9,227,960
2002	8,111,247	1,841,986	9,953,233
2003	9,159,794	1,971,683	11,131,477

\* Includes Reversionary annuities.

Statistical Section

NUMBER OF RECURRING BENEFIT PAYMENTS

At June 30	Retirement Annuities	Survivors' Annuities	Reversionary Annuities	Total
1994	222	131	3	356
1995	219	139	3	361
1996	216	134	3	353
1997	223	129	3	355
1998	218	125	3	346
1999	224	127	3	354
2000	221	125	3	349
2001	226	122	3	351
2002	227	123	3	353
2003	254	126	3	383

NUMBER ON ACTIVE PAYROLLS

At June 30	Elected State Officers	House Members	Senate Members	Miscellaneous Active	Total
1994	6	118	59	2	185
1995	6	118	59	—	183
1996	6	118	59	—	183
1997	6	118	59	—	183
1998	6	118	59	—	183
1999	6	118	59	—	183
2000	6	118	59	—	183
2001	6	118	59	—	183
2002	6	118	59	—	183
2003	6	118	59	—	183

ACTIVE  
RETIREES  
BY STATE





## RETIREMENT ANNUITANTS STATISTICS & AVERAGE MONTHLY BENEFITS

*Statistical Section*

Fiscal Year Ended June 30	At Retirement			Average Current Monthly Benefit
	Average Age	Average Length of Service *	Average Current Age	
1994	59.9	13.2	70.2	\$ 1,880
1995	60.0	13.4	70.3	2,047
1996	59.8	13.4	70.5	2,175
1997	60.0	13.6	70.7	2,301
1998	59.8	13.7	71.4	2,399
1999	59.0	15.0	71.2	2,604
2000	59.6	13.8	71.6	2,706
2001	59.6	13.6	71.7	2,810
2002	59.4	13.5	71.7	3,033
2003	59.7	13.9	71.5	3,247
* in years				

## NUMBER OF PARTICIPANTS

At June 30	Active	Inactive	Total
1994	184	101	285
1995	182	114	296
1996	181	108	289
1997	181	113	294
1998	181	113	294
1999	181	118	299
2000	181	110	291
2001	181	111	292
2002	181	105	286
2003	182	113	295

## Statistical Section

## TERMINATION REFUNDS

Fiscal Year Ended June 30	Number	Amount
1994	4	\$ 13,064
1995	6	117,347
1996	1	3,641
1997	4	38,717
1998	2	29,846
1999	2	55,653
2000	3	97,593
2001	1	12,290
2002	1	4,719
2003	5	21,523

Annuitants by Benefit Range (Monthly) on June 30, 2003						Survivors* by Benefit Range (Monthly) on June 30, 2003					
Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total		Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total	
\$ 1-500	25	25	9.8%	9.8%		\$ 1-500	38	38	29.2%	29.2%	
501-1000	17	42	6.7	16.5		501-1000	23	61	17.7	46.9	
1001-1500	21	63	8.3	24.8		1001-1500	18	79	14.6	61.5	
1501-2000	22	85	8.7	33.5		1501-2000	23	102	17.7	79.2	
2001-2500	25	110	9.8	43.3		2001-2500	13	115	10.0	89.2	
2501-3000	17	127	6.7	50.0		2501-3000	9	124	6.9	96.1	
3001-3500	22	149	8.7	58.7		3001-3500	2	126	1.5	97.6	
3501-4000	11	160	4.3	63.0		3501-4000	0	126	0.0	97.6	
4001-4500	22	182	8.7	71.7		4001-4500	1	127	0.8	98.4	
4501-5000	21	203	8.3	80.0		4501-5000	1	128	0.8	99.2	
5001-5500	19	222	7.5	87.5		5001-5500	0	128	0.0	99.2	
5501-6000	8	230	3.1	90.6		5501-6000	1	129	0.8	100.0	
6001-6500	3	233	1.2	91.8		* includes reversionary annuities					
6501-7000	8	241	3.1	94.9							
7001-7500	3	244	1.2	96.1							
7501-8000	2	246	0.8	96.9							
8001-8500	4	250	1.5	98.4							
8501-9000	0	250	0.0	98.4							
9001-9500	2	252	0.8	99.2							
9501-10000	0	252	0.0	99.2							
over 10000	2	254	0.8	100.0							

# PLAN SUMMARY & LEGISLATIVE SECTION

Plan Summary

SUMMARY OF RETIREMENT SYSTEM PLAN  
(As of June 30, 2003)

1. PURPOSE

The purpose of the System is to provide retirement annuities, survivors' annuities and other benefits for members of the General Assembly, certain elected officials, and their beneficiaries.

2. ADMINISTRATION

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of seven members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees.

Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

3. EMPLOYEE  
MEMBERSHIP

All members of the Illinois General Assembly and any person elected to the office of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller or Attorney General become members of the System unless they file an election not to participate within 24 months of taking office.

Any person who has served 10 or more years as Clerk or Assistant Clerk of the House of Representatives, Secretary or Assistant Secretary of the Senate or any combination thereof, may elect to become a participant.

4. PARTICIPANT  
CONTRIBUTIONS

Participants are required to contribute a percentage of salary as their share of meeting the various benefits at the rates shown below:

Retirement Annuity	8.5%
Automatic Annual Increase	1.0%
Survivors' Annuity	2.0%
Total	<u>11.5%</u>

A participant who has no eligible survivors' annuity beneficiary may elect to not participate in the survivors' annuity provisions in which case the total participant contribution rate is 9.5% of salary.

5. RETIREMENT  
ANNUITY

A. Qualification of Participant

Upon termination of service, a participant is eligible for a retirement annuity at age 55 with at least eight years of credit, or at age 62 with at least four years of credit.

B. Amount of Annuity

The retirement annuity is determined according to the following formula based upon the applicable salary:

- 3.0% for each of the first 4 years of credit;
- 3.5% for each of the next 2 years of credit;
- 4.0% for each of the next 2 years of credit;
- 4.5% for each of the next 4 years of credit;
- 5.0% for each year of service over 12 years.

The maximum annuity is 85% of final rate of salary after 20 years of credit.

C. Optional Forms of Payment

Reversionary Annuity: A participant may elect to receive a reduced annuity during his or her lifetime in order to provide a spouse, parent, child, brother or sister with a lifetime income. Such payment to a spouse would be in addition to the survivors' annuity benefit. The election should be filed with the System at least 2 years prior to retirement.

D. Annual Increases in Retirement  
Annuity

Post-retirement increases of 3% of the current amount of annuity are granted to participants effective in January or July of the year following the first anniversary of retirement and in January or July of each year thereafter. However, if the participant has not attained age 60 at that date, the payment of such annual increase shall be deferred until the first of the month following their 60th birthday.

## Plan Summary

For participants who remain in service after attaining 20 years of creditable service, the 3% annual increases shall begin to accrue on the January 1 following the date when the participant (1) attains age 55, or (2) attains 20 years of creditable service, whichever occurs later. In addition, the annual increases shall continue to accrue while the participant remains in service; however, such increases shall not become payable until (1) the January 1 or the July 1 next following the first anniversary of retirement, or (2) the first of the month following attainment of age 60, whichever occurs later.

### E. Suspension of Retirement Annuity

An annuitant who reenters service becomes a participant and resumes contributions to the System as of the date of reentry and retirement annuity payments cease.

If the provisions of the Retirement Systems' Reciprocal Act are elected at retirement, any employment which would result in the suspension of benefits under any of the retirement systems being considered would also cause the annuity payable by the General Assembly Retirement System to be suspended.

## 6. SURVIVORS' ANNUITY

### A. Qualification of Survivor

If death occurs while in service, the participant must have established at least two years of credit. If death occurs after termination of service and prior to receipt of retirement annuity, the participant must have established at least 4 years of credit.

To be eligible for the survivors' annuity, the spouse and participant or annuitant must have been married for at least 1 year immediately preceding the date of death.

An eligible spouse qualifies at age 50 or at any age if there is in the care of the spouse unmarried children who are (1) under age 18 or (2) over age 18 if mentally or physically disabled or (3) under age 22 and a full-time student. Eligible surviving children would be entitled to benefits if no spouse survives.

### B. Amount of Payment

If the participant's death occurs while in service, the surviving spouse without eligible children would be eligible to 66-2/3% of earned retirement annuity, subject to a minimum of 10% of salary. A surviving spouse with eligible children would receive the greater of 66-2/3% of the earned retirement annuity or 30% of salary increased by 10% of salary for each minor child, subject to a maximum of 50% of salary to a family, unless survived by a dependent disabled child in which case the annuity to a surviving spouse would not be less than 100% of the earned retirement annuity.

If the participant's death occurs after termination of service or retirement, the surviving spouse without eligible children would be eligible to 66-2/3% of earned retirement annuity. The maximum a surviving spouse with eligible children would receive is 75% of the earned retirement annuity unless survived by a dependent disabled child in which case the annuity to a surviving spouse would not be less than 100% of the earned retirement annuity.

The minimum survivors' annuity for any qualified survivor shall be \$300 per month.

### C. Duration of Payment

When all children, except for disabled children, are ineligible because of death, marriage or attainment of age 18 or age 22 in the case of a full-time student, the spouse's benefit is suspended if the spouse is under age 50 until attainment of such age.

### D. Annual Increases in Survivors' Annuity

Increases of 3% of the current amount of annuity are granted to survivors in each January occurring on or after the commencement of the annuity if the deceased participant died while receiving a retirement annuity.

In the event of an active participant's death, increases of 3% of the current amount of annuity are granted to survivors effective in January of the year next following the first anniversary of the commencement of the annuity and in January of each year thereafter.

Plan Summary

7. DEATH BENEFITS

The following lump sum death benefits are payable to the named beneficiaries or estate of the participant only if there are no eligible survivors' annuity beneficiaries surviving the deceased participant.

A. Before Retirement

If the participant's death occurs while in service, a refund of total contributions to the System, without interest, in the participant's account.

B. After Retirement

If the participant's death occurs after retirement, a refund of the excess of contributions to the System over annuity payments, if any.

The following lump sum death benefit is payable to the named beneficiaries or estate of the survivor.

A. Death of Survivor Annuitant

Upon death of the survivor annuitant with no further survivors' annuity payable, a refund of excess contributions to the System over total retirement and survivors' annuity payments, if any.

8. DISABILITY BENEFIT

A participant with at least 8 years of service who becomes permanently disabled while in service as a contributing participant is eligible for a retirement annuity regardless of age.

If disability is service-connected, the annuity is subject to reduction by amounts received by a participant under the Workers' Compensation Act and the Workers' Occupational Diseases Act.

9. REFUND OF CONTRIBUTIONS

Upon termination of service, a participant is entitled to a refund of total contributions to the System without interest. By accepting a refund, a participant forfeits all accrued rights and benefits in the System for his or herself and beneficiaries.

A participant who has no eligible survivors is entitled to a full refund of contributions for the survivors' annuity benefit. The refund may be repaid, with required interest, to qualify a spouse for survivors' annuity benefits if the participant marries or remarries after retirement.

## LEGISLATIVE AMENDMENTS

Legislative amendments with an effective date during fiscal year 2003 having an impact on the System.

### **House Bill 2660 (P.A. 93-0002, effective April 7, 2003)**

Authorizes the State to issue \$10 billion of general obligation bonds (GOB) for the purpose of making required contributions to the five state-funded retirement systems, including the General Assembly Retirement System. The net GOB proceeds are to be allocated to each of the five state-funded retirement systems based on each system's relative percentage of the total unfunded liability at June 30, 2002.

Modifies the existing funding plan by stating that, beginning in fiscal year 2005, and continuing through the life of the GOB program, the required state contribution to each system shall not exceed the contribution which would have been required had the GOB program not been effected, reduced by the total debt service for that year, including principal and interest, for that system's portion of the GOB proceeds.

## NEW LEGISLATION

Legislative amendments with an effective date subsequent to June 30, 2003, having an impact on the System.

### **Senate Bill 1476 (P.A. 93-0494, effective August 8, 2003)**

Disqualifies persons who first become participants after August 8, 2003 from the provision allowing participants with more than 20 years of creditable service to accrue 3% annual automatic annuity increases for each year they remain in service beginning on the January 1 next following the date they attain age 55 or attain 20 years of creditable service, whichever occurs later.

## Legislative Section

